COMMENT SHEET
CVP COST ALLOCATION MEETING OF MARCH 28, 2014

Name: Jerry Toenyes

Organization and Address: Northern California Power Agency, 651 Commerce Drive, Roseville, Ca 95678

Phone: (916) 781-4297
E-mail: Jerry.Toenyes@ncpa.com

Comments:

NCPA provides the following comments on the material presented at the March 28, 2014 meeting:

1. Cost Allocation vs. Cost Recovery. The allocation of operation and maintenance costs should also be added as a primary purpose of the cost allocation study. In addition, Reclamation states that the cost allocation is separate from cost recovery. While this is technically true, the allocation of costs has to be aligned with the future water and power deliveries to ensure proper rates for the repayment of reimbursable expenses.

2. NCPA supports the decision of making this the final cost allocation for facilities subject to the 2030 repayment requirement. In addition, NCPA agrees that the Separable Cost – Remaining Benefits (SCRB) cost allocation methodology should be used and concurs with the facilities to be included, the interest rate, and the 100 year period of analysis.

3. Base Year: The base year should be the first year after the cost allocation study is completed, not 2010. For the 1956, 1960, 1970, 1975, 1988 and 2000 CVP cost allocation studies Reclamation used the first year after completion of the SCRB allocation as the base year. There is no justification to use 2010 as the base year.

4. 50-Year Analysis and Historic Benefits – NCPA has provided previous comments on why the use of historical benefits is unacceptable for the cost allocation study and will not repeat those remarks in this comment sheet. Reclamation's proposal to evaluate the benefits for 50 years to see if initial benefits exceed the Single Purpose Alternative (SPA) cannot be supported as part of the SCRB allocation process and conflicts with the previously stated 100 year period for benefit analysis. Reclamation cannot justify looking at a 50 year benefit period as a test period because the entire 100 year benefit analysis period needs to be used.

Reclamation's proposal to evaluate benefits for a 50-year period for a comparison to the SPA directly contradicts the SCRB cost allocation methodology. The SCRB cost allocation methodology states that the justifiable expenditure is the lesser of either: (1) the benefits ascribed to the purpose or (2) the cost of the most economical SPA. It does not require that benefits exceed the SPA.

Reclamation's proposal makes the allocation process a SPA allocation methodology instead of a SCRB methodology and corrupts the SCRB allocation process. All of the previous CVP cost allocations used a 100 year benefit analysis period, using the lesser of the benefits or the SPA to determine the justifiable expenditure for each project purpose. This study needs to conform to the SCRB procedure that has been used in the CVP since 1956.

5. Benefit Analysis – Reclamation states that its directives and standards measure benefits from a national perspective as opposed to a local one. That assessment does not match how it collects revenue. The revenue collection is based on water and power deliveries to local, in-state CVP customers. If national benefits are greater than California benefits, CVP customers should not be required to pay for benefits that flow to others. Conversely, CVP water and power customers should not pay less than the actual benefits they receive if the national benefits are lower than the actual benefits received by water and power. Every product produced by CVP generation is valued in the CAISO market on hourly and sub-hourly basis. Those values exactly depict the benefits produced by CVP generation.

6. Water Year Types – Reclamation proposes to develop an estimated range of benefits for various types of water years to use in CalSim modeling. This will require several costly runs when only one projection will be used for the benefit analysis. Reclamation should utilize an average water year and one analysis to project water and power deliveries and control the cost associated with this analysis.

7. Capital Cost Evaluation and Facility Sizing – Reclamation proposes to use either indexing or re-pricing for its cost equalization methodologies. NCPA recommends that Reclamation consider the cost of each of those options for the cost allocation and use the least costly method as long as the results are reasonable and comparable between the project purposes.

8. Types of Costs – Restoration Fund costs paid by water and power are specific costs that need to be included as separable costs in the SCRB allocation. The payment of the Restoration costs needs to be deducted from the justifiable expenditure to determine the remaining justifiable expenditure to be used to allocate joint costs.

9. Trinity River Division – Reclamation states that flood control and navigation are not authorized for the Trinity River Division and that costs will not be allocated to those purposes. Yet Reclamation operates the division for flood control and makes water releases from Trinity Dam for that purpose. If flood control is not an authorized purpose Reclamation should not operate the Trinity division to meet flood control objectives. This is exactly why project cost allocations are updated – to more accurately reflect current and future project operations and the associated benefits. Trinity flood control benefits need be evaluated in this study and appropriate costs allocated to that purpose. Reclamation should report to Congress when this study is finished that Trinity is operated for flood control and costs will be allocated to flood control in accordance with the benefits provided.

10. Flood Control Benefits Methodology – Reclamation states that the benefit analyses for each reservoir was completed by indexing historic damage prevented values forward to the base year. This is contrary to slides 26 and 27 of the October 21, 2011 PowerPoint presentation which shows that future benefits, not historical benefits, were used to develop the CVP flood control benefit analysis.

11. Navigation – Reclamation states that future navigational benefits are no longer being provided but historical benefits will be considered. Further, Reclamation
states there is no need to develop a SPA cost because the CVP no longer provides navigation benefits. If the SPA is zero, however, the allocated cost to navigation will be zero because SCRB uses the lesser of the benefits or the SPA to determine the justifiable expenditure. This is yet another example of why attempting to use historic benefits is incompatible with the SCRB cost allocation process and cost recovery.

12. Power Benefits Methodology – Reclamation proposes a Proof of Concept test, which NCPA was reluctantly willing to consider, but the proposal presented at the March meeting will lead to unwarranted costs. The actual power benefits are already known because of the California Independent System Operator (CAISO) market. The CAISO provides hourly and sub-hourly market rates for every generation product and several publications are available that project these values into the future. Reclamation needs to use today's energy reality to value power benefits in this cost allocation. The CAISO market rates also include a valuation for greenhouse gas emissions and reflect the projected use of renewable generation in California's future. Regarding the sub-allocation of power costs between project use and commercial power, Reclamation needs to develop a proposal for that procedure.

13. Power: Facility Sizing – Reclamation proposes in general terms how a hydropower facility may be sized for a SPA but does not discuss the gas turbine SPA, which also needs to be included in the process. Reclamation also

discusses transmission to the Tracy load center, which no longer exists with the termination of Contract -2948A and the advent of the CAISO market. The only CVP transmission facilities that are necessary for the SPA are short transmission lines from the power plants to the nearest interconnection point with CAISO transmission.

14. Fish and Wildlife Benefits Methodology: The operation of the CVP has changed dramatically since the late 1980’s to provide benefits for fish and wildlife, including incapacitating the Red Bluff Diversion Dam, meeting various water quality standards, and releasing significantly more water from CVP dams for flow and temperature control. NCPA recommends that Reclamation utilize the methodology in the Shasta Dam Water Resource Investigation to develop fish and wildlife benefits for this cost allocation.

15. Water Quality Benefits: Reclamation quotes Public Law 99-546 as stating “the costs for providing water for salinity control and for complying with State water quality standards above D-1485 shall be non-reimbursable” and then paradoxically states it is researching whether it was the intent of Congress that added costs of complying with water quality standards higher than D-1485 is non-reimbursable. It is very clear the language of Public Law 99-546 states those additional releases shall be non-reimbursable.

16. Recreation Benefits: Reclamation states that it anticipates that no joint costs will be allocated to the recreation purpose for any multi-purpose CVP facility. The Shasta Dam Water Resource Investigation shows that the recreation benefits from the existing Shasta Dam are close to $100 million per year, which is similar to the power benefits generated from Shasta Dam on an annual basis. Further, large recreation use at Folsom Dam and to a lesser extent at Trinity and New Melones occurs on an annual basis. In addition Reclamation makes water releases on certain days to enhance the American River recreation. Since the project is operated and produces significant recreation benefits not originally anticipated when the facilities were authorized, Reclamation needs to include recreation benefits in the cost allocation analysis, report the benefits to Congress, and state that the CVP will allocate costs to recreation commensurate with the benefits now being produced at CVP facilities.